Please note that the views expressed in this report do not necessarily represent those of the Committee of Inquiry on Crofting.

ASSESSMENT OF THE ECONOMIC IMPACT OF PROPOSALS BY THE COMMITTEE OF INQUIRY ON CROFTING

A report submitted by

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EXECUTIVE SUMMARY

The Committee of Inquiry on Crofting commissioned this short assessment of the economic impacts of its proposals. Four main categories of impact may be identified, although precise effects will vary across different locations.

Public finances

The proposals are estimated to lead to additional one-year set-up costs of about £3.2m with additional on-going annual costs of around £1.3m. These largely follow from two of the recommendations, namely the transfer to - and presumed urgent (but one-off) updating by - the Registers of Scotland of the Croft Register (£3m) and an uplift (£1m) in annual expenditure under the enhanced Croft House Grants Scheme (CHGS). Both cost estimates are subject to significant uncertainty since they depend, respectively, on the degree of updating required and the effect of means testing on grant awards. Other modest costs will be also incurred through the election and running of the Local Crofting Boards, although potential off-setting savings arising from the reorganisation of current Crofters Commission functions may also arise.

Public goods

The gradual demise of traditional land management practices in remote rural Scotland has diminished the supply of associated cultural and environmental public goods. Decoupled agricultural support payments – whether redistributed as recommended or not - will not by themselves ensure the continuation of particular land management practices, although enforcement of a (cross-compliance) requirement for "working the land" may retain some public good provision on crofts. However, given the need to observe EU (and WTO) constraints on recoupling, the recommendation for increasing ease of access to, and funding of, Pillar II measures offers a more transparent and workable method of targeting particular public goods.

Croft housing and land values

The proposed enforcement of tighter occupancy and assignment rules will reduce the market value of croft housing and land, both by increasing the supply of available crofts and by dampening an element of speculative demand. The pace, duration and pattern of this effect will depend jointly on the ability of individuals to adjust to tighter regulations and the speed and firmness with which restrictions are imposed. The potential role of Local Crofting Boards rather than market forces in allocating properties to different types (demand segments) of household will reinforce the need for transparency and local accountability in decision making.

Development dynamics

The use to which croft resources – croft land but also the experience, skills and other forms of capital held by crofters – are put, and therefore their local economic effect and value, may be influenced by some of the recommendations in this Report. In particular, tighter controls on occupancy and transfer plus arrangements for new entrants and local decision making may encourage the formation of croft households with stronger workforce and consumer links to the local economy. Within this, whilst "working the land" may support some public goods and make a contribution to local economic activity, linkages to the wider rural economy and the multiplier effects of other activities undertaken by crofting households may be more significant.

ASSESSMENT OF THE ECONOMIC IMPACT OF PROPOSALS BY THE COMMITTEE OF INQUIRY ON CROFTING

Introduction

1. The political importance attached to crofting, and population retention and sustainable development more broadly in the remoter parts of Scotland, relates to a mix of inter-related objectives including social equity, community dynamism and the maintenance of cultural and environmental public goods.

2. The pursuit of such objectives can be sought through various policy mechanisms, including support grants and subsidies to encourage desired behaviours and outcomes or regulatory controls to oblige or prohibit certain activities. The economic efficiency and impact of particular mechanisms depends upon their specific design but also the context within which they operate, including institutional arrangements for administering and implementing them.[1] In this context, the Committee of Inquiry on Crofting commissioned this short paper to consider the economic impact of their proposals for the future of crofting.

3. Crudely, the ideas and recommendations presented in the Committee's Report may be grouped into four categories for economic analysis. As with any classification, there is a degree of overlap, but the categories do provide a basis for identifying the main economic considerations arising from the proposals. The remainder of this short paper briefly explores each of these four categories in turn, identifying the likely nature of impacts – although the precise impacts in any given area will depend on local circumstances which are acknowledged to vary greatly across crofting communities.

Public finances

4. Any state intervention imposes a burden on public finances in the form of transfer payments from taxpayers to grant or subsidy recipients and/or the administrative cost of implementing payment schemes or regulatory controls.[2] Strictly, the economics of this extend to the distortionary effect of taxation and to how any given budget could be spent in other ways. Here, however, given the contemporary emphasis on administrative efficiency-savings in the public sector, a narrower public finance perspective is adopted to focus solely on the first-order budgetary impacts of the proposals, particularly the likelihood of recommended changes being budget-neutral or incurring net additional costs.

5. Currently, public expenditure relating predominantly to crofting comprises the costs of running the Crofters Commission (CC) and funding various crofting-specific support schemes. Other identifiable, if less–easily quantified, categories of crofting-related expenditure include a proportion of costs incurred by other arms of government in providing information to the CC and/or in administering more general support schemes and regulatory functions that apply equally to crofts and non-crofts.

6. However, the latter - and their costs - are assumed to remain untouched by the proposals in this report, although are themselves somewhat fluid given initiatives to join-up and streamline organisations involved in land management and rural development functions across Scotland. Equally, the suggestions for alternative patterns of payment distributions under more general support schemes such as the Single Farm Payment (SFP) or Less Favoured Area Support Scheme (LFASS) do not of themselves imply an increase in total public expenditure, merely its reallocation.

7. Hence the main budgetary implications of this report stem from its recommendations relating to certain aspects of the institutional or governance arrangements for crofting and to the bolstering of the Croft House Grant Scheme (CHGS). Whilst the latter would be expected to increase the level of public expenditure, the degree of additional funding needed will depend jointly upon the higher payment rate made to recipients and the number of applications approved.

8. That is, it would be possible to limit expenditure to the current budget by simply making fewer, but more generous, awards – or indeed more, but smaller awards. Equally, if – for example - the number of annual awards rose to around 200 at the suggested maximum rate of £30k, this would imply total expenditure of £6m. However, given the envisaged potential for means testing to limit awards, and given the historical level of demand, it may be reasonable to assume total expenditure of around £4m - a modest uplift of between £0.4m and £1.4m. Extension of the Crofting Counties Agricultural Grants Scheme (CCAGS) to non-agricultural activities is not anticipated to increase its expenditure.

9. With respect to the recommendations for adjusting crofting's governance and institutional arrangements, three specific sources of potential additional cost may be identified. First, the creation of partially elected Local Crofting Boards will incur some public costs through the election process and then through running of the Boards. The election process could reasonably be overseen by the Electoral Commission as a routine extension to its existing responsibilities, and therefore at presumably modest marginal extra cost. However, some additional prior costs would probably be incurred in reconciling the existing list of crofters to the Electoral Roll. On the basis of information provided, these might amount to £200k start-up costs plus £30k of on-going, annual costs.

10. Second, transferring responsibility for maintaining the Register of Crofts from the Crofters Commission to Registers of Scotland (RoS) should achieve some efficiency savings since RoS already specialises in such tasks and will presumably bring greater expertise, experience and economies of scale to bear. However, given that the Register is currently of uncertain quality, additional costs may be incurred in updating it. Depending on the urgency and scale of updating required, this could run to around £3m. However, there may be some overlaps – and thus cost savings - with the reconciliation of electoral data.

11. Third, transferring responsibility for crofting development to a Crofting and Community Development Body – preferably within HIE - again offers the potential to benefit from the expertise and experience of an established team. Moreover, placing crofting development interests in a slightly wider context should help Local Crofting Boards identify and integrate development opportunities across their communities.

The budgetary implications of this are difficult to gauge, especially given current organisational change at HIE. Nevertheless, economies of scale and prior experience might allow HIE to simply absorb the additional client base within existing budgets, although some costs may be incurred if initial additional efforts are made to proactively target crofters. Similarly, if the shift in responsibilities leads to a greater uptake of non-crofting support schemes by crofters, there may be an increase in public expenditure – but much depends on the manner in which those other schemes are managed.

12. It is not clear whether continuing to run similar but separate grant schemes for crofters and non-crofters incurs significant additional administrative costs, or whether wider moves (e.g. under SEARS) to streamline and join-up back-office functions largely negates this. Equally, it is not clear whether a transfer of budgetary resources will accompany the transfer of responsibilities between bodies.

Public goods

13. As a form of "multifunctional" land management, crofting contributes to a number of public goods associated with the Highlands and Islands. These include a distinctive landscape pattern, aspects of biodiversity and elements of cultural heritage. They are public goods in the sense that, although having an economic value to society, market forces alone are insufficient to ensure their provision, meaning that alternative mechanisms have to be deployed to secure their creation and maintenance.[3]

14. In many cases, these public goods have historically been generated jointly, as "externalities" (by-products) of land management activities pursued for other (private) reasons. For example, in some cases, traditional crofting practices intended primarily to support crofting households also helped to create and maintain particular landscapes, with their associated High Nature Value (HNV), and to sustain community cohesion through common or shared interests and experiences. Whilst crofting's contribution is acknowledged to be important locally, given the aggregate area of crofts relative to the extent of rural Scotland, crofting is responsible for only a proportion of rural public goods and other forms of tenure and management also have a role – although in all cases the precise relationship with public goods may be complex and variable.[4]

15. However, the gradual demise of traditional land management practices in the face of deteriorating commercial conditions has undeniably weakened the spontaneous delivery of some desired public goods via positive externality effects. That is, many individuals taking privately rational decisions on how to allocate their resources (time, capital, land) in response to evolving market and policy signals have increasingly opted to pursue activities other than active management of their land. The decoupling of most of CAP Pillar I expenditure appears to have accelerated this trend, thereby further undermining the supply of certain public goods in remoter rural areas. Hence there is rising interest in how and whether to halt and reverse this process.[5]

16. Yet by itself, the recommendation to increase the share of SFP and LFASS expenditure accruing to crofters (or remoter areas in general) will not ensure the continuation of particular land management practices and will therefore not secure the

provision of desired public benefits. This is because the decoupled nature of both payment schemes means that they are tied only very weakly to specific land management practices. Consequently, unless accompanied by more prescriptive cross-compliance requirements or more explicit targeting or a return to explicitly coupled production payments, simply increasing the level of SFP and LFASS payments to crofters is unlikely to secure enhanced levels of desired public goods.

17. Although issues of food security are rising on the political agenda, recoupling of agricultural support sits uneasily with the rhetoric of CAP reform and the need to observe World Trade Organisation (WTO) rules. By contrast, there is some interest in "greening" of Pillar I through enhanced cross-compliance measures. However, cross-compliance is a relatively blunt instrument since the potential to deliver public goods is distributed unevenly across different parcels of land and thus may require a degree of tailoring beyond what can be reasonably codified in blanket prescriptions. That is, most aspects of current cross-compliance actually relate to the avoidance of negative externalities rather than the enhancement of positive ones which can be harder to define. Defining "working the land" may be somewhat challenging, and requiring each occupier to comply in person may not necessarily be the most effective means of securing a particular public good.

18. Moreover, whilst the historical basis for the SFP may be viewed as increasingly detached from any easily defendable rationale, simply converting to an equally arbitrary flat-rate basis would also be poorly linked to achieving public good measures and could – at least in some places – actually lead to a loss of current public benefits. For this reason, the recommendation for increasing ease of access to, and funding of, Pillar II measures offers a more transparent and workable method of targeting particular public goods.[6] A revised LFASS classification based on provision of public goods would be consistent with this, although difficult to design and possibly more complex than simply based on mountain and island geographies.

19. However, a major impediment to the effectiveness of Pillar II measures in delivering widespread public benefits lies in the calculation of payment rates.[7] Limiting payments to costs incurred and income forgone is unlikely to prove sufficiently attractive to entice enrolment on the scale needed to compensate for market realities and the loss of positive externalities. Although research into alternative approaches is underway, this issue needs to be addressed urgently at the EU level to reconcile emerging pressures (notably mitigating climate change) with apparent WTO "Green Box" constraints. Aligning payment rates to the value rather than cost of public goods would, however, have implications for the overall level of funding for such support schemes – as recognised by the call for increased modulation from Pillar I to Pillar II.

20. It also raises challenges of how to measure and valorise non-market benefits since the economic value derived from public goods arises through direct use (as with active recreational enjoyment in the countryside), indirect use (as with often imperceptible, diffuse benefits of eco-system services in maintaining water quality or carbon stores) plus non-use (as with the "warm glow" of knowing that a rare species or a minority language continues to exist, even if no personal use is being made of it) – none of which are necessarily directly observable.[8]

21. Moreover, the variation in type of value derived typically means that different groups in society feel different benefits: there are different "publics" for different public goods. Consequently, although some benefits may be captured locally through, for example, tourism revenues, food products or local "quality of life",[9] typically a dominant share of the economic value can not be valorised into marketable products or services and hence often flows beyond the immediate community. In the absence of taxpayer transfers to compensate for the real resource costs of provision, this means that the positive economic contribution of public goods can often be difficult to discern at the local level – meaning that local concerns may focus on more tangible economic impacts.

Croft housing and land values

22. As with non-croft properties, the market value of croft houses and croft land reflects the interaction of supply and demand, both of which are influenced by a number of factors and may be affected by some of the proposals in this report.

23. On the supply side, the total stock of crofts is of less relevance than the rate at which they become available for transfer; currently, of around 17,700 crofts, between 300 and 400 are reassigned each year. This rate of churn is largely a function of the structure and stability of the occupier population, with transfers typically occurring at the point of death or retirement of an occupier or an earlier decision to formally leave crofting. For the latter, tighter enforcement of requirements to physically occupy and work a croft should induce an increase in supply by encouraging those who are only nominally crofting - absentee occupiers and others neglecting the condition of their crofts - to release their houses and/or land for reassignment. This should exert downward pressure on croft house and land values.

24. However, the response of individual crofters to tighter restrictions will depend on their personal circumstances and the precise specification and enforcement of restrictions by Local Crofting Boards. It is assumed that most non-absentee crofters will be able to abide by requirements relatively easily. Equally, some absentee occupiers may be in a position to comply with new restrictions particularly if (for example) allowances are made for extended periods away from "home" due to working commitments.

25. Nevertheless, given that there are approximately 1700 absentee occupiers plus a number of other "neglected" crofts, even if only a proportion are persuaded to relinquish their properties it seems likely that the availability of crofts for transfer will increase. The pace and duration of this effect will depend on how quickly and firmly Local Crofting Boards choose to implement the restrictions: the faster and tighter, the more rapid the transition and the greater the effect on prices; the slower and looser, the weaker the effect. The proposal suggests "within a generation", which implies a relatively slow adjustment process.

26. Other proposals may increase on-going supply to a modest degree. For example, limiting the number of croft amalgamations and/or proactively splitting larger holdings plus permitting up to two houses[10] on a croft should, over time gradually increase the total number of individual properties and thus proportionately the number

available for transfer in any given year. Equally, the persistence of real burdens and greater regulatory scrutiny may deter some (speculative) decrofting, again helping to maintain the stock of crofts.

27. However, sustained downward pressure on the value of croft houses and croft land is perhaps most likely to arise from the effect of tighter restrictions on effective demand. In particular, the attachment of real burdens to properties – whether decrofted or not – and tighter regulation of sales and assignments may dampen some segments of market demand.[11] For example, buyers seeking a holiday home might well be deterred by occupancy requirements.

28. Yet affluent buyers – whether "incomers" or wealthy locals – intending to live in croft properties may not be dissuaded by either occupancy or "working the land" requirements – particularly if the latter can be met by paying others to do so on the occupiers' behalf (something that may need to be considered for elderly or infirm residents). As an analogy, burdens on listed buildings or in urban conservation areas do not necessarily lead to more affordable properties.

29. This suggests that the effect on housing and land values will depend on the rigidity with which restrictions are specified and enforced (or waived) by Local Crofting Boards. All other things being equal, tighter restrictions will achieve lower prices. That is, regulatory control of assignments may be used to preclude speculative buying and selling (e.g. through decrofting) but also to manage the croft market more generally.

30. In extremis, this would represent a suspension of market forces and the use of an allocation model based on some measure of need or local priority rather than ability to pay, highlighting parallels with wider interest in mechanisms to secure more affordable and social housing in rural areas.[12] Inevitably, this will place a greater onus on the need for accountability and transparency of decision making by Local Crofting Boards.

31. If exercised to a great degree, such regulatory scrutiny could divert some market demand onto non-crofts, increasing price pressure on other rural properties – although proposals to encourage greater affordable housing provision more generally may counter this to some degree.[13]

32. Estimating price effects and the "need" for affordable housing is not straightforward since it needs to account for trends in household formation, incomes, current prices and rents plus recorded backlogs and the masking of need by households adapting to circumstances (e.g. sharing premises or moving away). Moreover, estimates are sensitive to underlying assumptions and the treatment of different types of household and different types of properties.[14] Nevertheless, rough estimates are available at Local Authority level.[15]

33. Of an estimated national need for around 8000 additional affordable homes, around 1000 are estimated to lie in the Highlands and Islands. Whilst not all of these will be in crofting areas, and some may be occupied on sub-lets, the potential release of absentees' croft houses could thus make a significant contribution to overall availability of affordable housing in the Highlands and Islands. Within this, as noted

above, the pace of release will be important but there will also probably be a geographical mismatch between (local) supply and demand – as already exists across some parts of Scotland. This means that the actual impact on local availability will vary across communities and some matching mechanism may be needed.

Development dynamics

34. Rural development poses both analytical and policy challenges, with on-going debates about definitions and relationships as well as the appropriateness of particular objectives and support mechanisms.[16] Nevertheless, contemporary thinking points increasingly to the need for a "territorial" rather than sectoral approach, seeking to encourage development through an emphasis on local human and social capital and support for areas rather than particular activities.[17] Such themes are prominent in current discussions about the future direction and funding of EU agricultural and cohesion policies,[18] although other commentators offer reminders of the importance of macro-economic forces and the uncertainties inherent in forecasting development trajectories.[19]

35. In this context, the Committee's proposals for increased local autonomy in the allocation of resources and setting of development strategies fits with notions of "bottom up" processes, empowerment and flexibility – all of which are generally viewed as enhancing local development. Moreover, they are consistent with other aspects of Scottish policy such as various aspects of Land Reform and the use of Regional Proposal Assessment Committees (RPACs) in local prioritisation of some rural development measures under Pillar II.

36. The use to which croft resources – croft land but also the experience, skills and other forms of capital held by crofters – are put, and therefore their local economic effect and value, are influenced by various factors. However, the catalytic effect of empowerment can vary greatly depending on the capacity of local communities to self-organise and self-manage, meaning that some initial and on-going training (as well as funding) for local groups may be desirable and that tangible economic impacts may be slow to emerge.[20]

37. Related to this, whilst an emphasis on displacing absentee occupiers and prioritising younger new entrants is understandable, the relative economic contribution of different types of household may be slightly more complex.[21] That is, in some cases, absentee occupiers and (more likely) non-crofting incomers (including retirees) can contribute to local economic vibrancy by acting as a source of additional resources. These can be in the form of financial, human or social capital (e.g. cash, skills and ideas, networks of contacts) less directly linked to land and thus provide a source of economic diversification.

38. Equally, the capacity of new croft households to engage in value-added activities, to generate household income and contribute to the local economy, may be constrained by a lack of such capital (including confidence).[22] This highlights the need to achieve a balance between exogenous and endogenous drivers of development, but also reinforces the need to invest in local capacity to change - affordable housing and new

households will not by themselves guarantee economic vibrancy. Extending CCAGS to non-agricultural activities will help to a modest degree in this regard.

39. Nevertheless, through increasing the availability of affordable housing, the proposals may contribute to the maintenance of local populations, which in turn may help to maintain "critical mass" of both local demand for goods and services and the supply of local labour. That is, population sparsity is a characteristic of remote rural areas and means that local markets are often "thin", leading to a reliance on wider markets – for example in the form of visitors or exports, both of which can be unreliable. Increasing the "thickness" of markets can improve their stability and efficiency, encouraging investment and innovation.

40. Hence, provided that in aggregate the capacity and propensity of new croft households to generate and spend income locally exceeds that of absentee crofters and non-crofter households that might otherwise have occupied particular properties, local economic dynamism should improve. Within this, whilst "working the land" may support some public goods and make a contribution to local economic activity, the effects of other activities undertaken by crofting households may be more significant – as indeed indicated by the Report's own estimates of the dominant proportion of crofting household income derived from activities other than agriculture.

41. More specifically, whilst primary sector activities such as agriculture (and forestry and fishing) tend to have relatively high reported economic multipliers, some care needs to be exercised before interpreting this as an indicator of development importance relative to other activities. First, whilst a high multiplier value is a boon during market upswings, it is a burden during downswings; negative effects are amplified just as easily as positive effects. Given the volatility of commodity markets, this means that heavy reliance on primary industries can expose local economies to irregular growth patterns, a risk that has been heightened with the advent of decoupling and increased exposure to market forces.

42. Second, depending on the scale at which multipliers are calculated, apparent effects may actually be diluted through the need for local economies to "import" many inputs – such as additional feed or fertilisers – and to "export" produce for processing. Other economic activities – particularly in the service sector, and including housing - may have more localised multiplier effects and, moreover, engage more directly with a higher proportion of the local population than the increasingly specialised primary production chain.

43. Both of these caveats suggest that, whilst agriculture and other primary industries remain an important component of rural economies, most rural areas are already dominated by service-sector activities and local economic and community vitality needs a degree of continued diversification. This may include attempting to add-value to primary commodity outputs, but also to establish sources of income and employment unrelated to primary production.

44. In this context, enforcement of "working the land" for each individual crofter may contribute less to local development than if the effort required to comply with the restriction were to be deployed locally in other ways. Given the importance of scale economies to many aspects of land management, this effect may be exacerbated by

the proposal to limit the overall size of amalgamated crofts – a proposal that itself recognises implicitly the greater economic value of land for housing. Similarly, constraints on building houses on good (i.e. in-bye) croft land effectively prioritise low value agriculture over residential accommodation, for which the Report acknowledges high demand and thus value. However, land and its working are seen by the Committee as an integral element of sustainable crofting and - depending on the precise specification of the requirement - may not be an overly onerous burden for individuals to shoulder as a means of maintaining some aspects of shared culture across crofting households.

45. In principle, proposals to increase the share of SFP and LFASS expenditure claimed by crofters may compensate for the burden of "working the land". However, given that the payments are decoupled and given that the potential productivity of much croft land is limited, the impact on agricultural activity and public goods may be slight. It should also be noted that lowering the share of expenditure flowing to non-crofting areas may reduce agricultural activity elsewhere.

46. However, decoupled payments do represent an injection of funds into crofting households and thus into remote rural areas – and enhancing crofting's share of such payments would boost the size of the injection.[23] Depending on how decoupled payments are deployed they may have a greater or lesser effect than previous coupled payments: the effect depends on the propensity of recipient households to spend on production and consumption activities that are embedded in the local economy. This essentially underpins contemporary debates about the relative rural development merits of taxpayer transfers to sectorally (i.e. agricultural) rather than territorially defined households – offering support more generally than only to households with controlling interests in land might achieve greater returns on public expenditure.

Conclusions

47. The Committee of Inquiry's remit and proposals range across various aspects of crofting, including social and cultural dimensions that may take precedence over purely economic considerations. Nevertheless, economic impacts were acknowledged in advance to be an important part of the overall picture. Hence this short paper was commissioned to identify the main impacts.

48. Although more quantitative analysis based on more comprehensive data might reveal additional potential effects and their relative magnitude, the main considerations arising from the proposals have been identified as falling into four main categories: public finances; public goods; croft values; and development dynamics. Given the current heterogeneity of crofting communities, it is likely that the precise impacts will vary across different parts remote Scotland.

49. Nevertheless, in summary, the proposals are likely to result in a modest increase in public expenditure, some gains in the provision of public goods and affordable housing and some potential stimulation of local development activity. However, more general factors influencing remote rural areas will also play a significant role in shaping the economic future of crofting.

Endnotes

[1] See, for example, Stiglitz, J. (2000) *Economics of the Public Sector.* W.W. Norton & Company, New York.

[2] See, for example, Laffont, J-J. & Tirole, J. (1993*) A Theory of Incentives in Procurement and Regulation.* MIT Press, Cambridge, MA.

[3] See, for example, Cornes, R. & T. Sandler, T. (1996). *The Theory of Externalities, Public Goods and Club Goods.* Cambridge University Press, Cambridge.

[4] See, for example, OECD (2001) *Multifunctionality. Towards an Analytical Framework.* OECD, Paris; Slee, B. et al. (2002) *Agriculture's contribution to Scottish society, economy and environment.* A literature review for the Scottish Executive Rural Affairs Department and CRU. Scottish Executive, Edinburgh. http://www.scotland.gov.uk/Publications/2001/06/9405/File-1

[5] Although negative externalities such as soil erosion and water pollution are also associated with some commercial practices, meaning that declining commodity production may actually yield public benefits.

[6] See, for example, Moreddu, C. (2007) *Effective Targeting of Agricultural Policies. Best practices for policy design and implementation*. OECD, Paris

[7] If payment rates are determined separately from eligibility criteria, a focus on (e.g.) land classification alone may not alter expenditure patterns.

[8] See, for example, OECD (2000). *Valuing Rural Amenities*. OECD, Paris.

[9] See, for example, Bryden, J. (2007) *Sustainable Rural Communities*. Report to Crofting Inquiry.http://croftinginquiry.org/Resource/Doc/0/0000147.doc

[10] Although this is proposed specifically to improve retirement options for elderly crofters, it also has the effect of increasing the stock of housing and accelerating the rate of transfer more generally.

[11] Segments include commuters, retirees, second home owners and local households – rich and poor.

[12] See, for example, Shiel et al. (2006) *Effectiveness of current arrangements to allocate land for affordable housing through the planning system in Scotland and the potential value of introducing other mechanisms*. Report to Communities Scotland. http://www.scotland.gov.uk/Publications/2007/01/30155014/0; also Anon (2007) *Restricted occupancy conditions in National Parks*. Communities Scotland, Aberdeen http://www.ro.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/pubcs_018024.pdf

[13] Robertson, V & Satsangi, M. (unpublished) *In-migration, housing, employment and the use of language: a literature review*, cited by Hope, S. et al. (2003) *In-migration to the Highlands and Islands.* Report prepared for HIE. http://www.hie.co.uk/in-migration-survey-2003.pdf , suggest that rural house prices are driven more by systemic under supply of housing rather additional demand attributable to incomers.

[14] See, for example, Anon (2007) *Scottish Housing Market Review Evidence and Analysis 20*07. Economic Discussion Paper, Scottish Executive, Edinburgh. http://www.scotland.gov.uk/Resource/Doc/180088/0051205.pdf

[15] Bramley et al. (2006) *Local housing need and affordability model for Scotland*. A report to the Scottish Executive and Communities Scotland, Edinburgh. http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/pubcs_016552.pdf

[16] See, for example: Krugman, P. (1995). *Development, Geography and Economic Theory*. MIT Press, London; Dwyer, J. et al. (2001). *The Nature of Rural Development: Towards a*

Sustainable Integrated Rural Policy in Europe. A ten-nation scoping study. IEEP, London. http://www.ieep.eu/publications/pdfs/2001/natureruraldevelopment.pdf; Dwyer, J. et al. (2003). Europe's Rural Futures – The Nature of Rural Development II. IEEP, London. http://www.ieep.eu/publications/pdfs/2003/ERFRevised.pdf; Terluin, T. (2003). Differences in economic development in rural regions of advanced countries: an overview and critical analysis of theories, *Journal of Rural Studies*, **19**, 327-344; Hodge, I. & Monk, S. (2004). Editorial: The economic diversity of rural England: stylised fallacies and uncertain evidence, *Journal of Rural Studies*, **20/3**, 263–272; Petrick, M. (2006). *Should the Government Finance Public Goods in Rural Areas? A Review of Arguments* http://agecon.lib.umn.edu/cgi-bin/pdf_view.pl?paperid=20681; Blandford, D. & Hill, B. (2008) Directions in Rural Development Policy – Lessons from Both Sides of the Atlantic. EuroChoices, ***Vol. 7*** *Special Issue comparing EU and US Rural Development Policies*. p6-12.

[17] See, for example, OECD (2006). *The New Rural Paradigm: Policies and Governance*; and OECD (2006). *Coherence of Agricultural and Rural Development Policies*. OECD Publishing, Paris; Bryden op cit.

[18] See, for example, Pareto Consulting (2007) *Exploring Scenarios for Rural Europe: the Future of Agricultural Policy*. A paper prepared for the SE/HIE/Sen, for discussion at a Sub Rosa Workshop 9-10 March 2007, Club van de Universitaire, Stichting, Rue d'Egmont 11, Brussels.
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[19] Copus, A. et al. (2007) One Size Fits All? Regional Differentiation and Rural Development Policy. *EuroChoices*, **Vol. 6/3**, pp 13-21; Luloff, A.E. & Krannich, R.S. (2002) *Persistence and Change in Rural Communities. A 50-year follow-up to six classic case studies.* CABI Publishing, Wallingford.

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[21] Roberts, D. (2005) The role of households in sustaining rural economies: A structural path analysis, *European Review of Agricultural Economics* , **32(3)**, pp393-420 (also http://www.w-isles.gov.uk/factfile/economy/mluri2/keyFindings.htm); Stockdale, A. (2006) Migration: A Pre-Requisite for Rural Economic Regeneration. *Journal of Rural Studies*, **22**, pp354-366.

[22] See, for example: Quirk, B. (2007) op cit; Mackenzie, A. (2007) *The contribution of crofting in the 21st Century.* Report to Crofting Inquiry
http://croftinginquiry.org/Resource/Doc/0/0000146.doc;

[23] Raising the minimum payment would be more effective at targeting expenditure on crofts, whereas a more general increase in payment rates per hectare would (in the absence of any capping of maximum payments) probably skew expenditure to larger land holdings – although this too could represent an injection into the local economy.